

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 AGR-20 AID-20 CIAE-00 COME-00 EB-11

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FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 6932

UNCLAS BOGOTA 2802

E. O. 11652: N/A

TAGS: ECON CO

SUBJECT: GOC ANNOUNCES MEASURES AGAINST INFLATION

REF: A. BOGOTA 1360 B. BOGOTA 1968

1. SUMMARY- GOC CONSIDERS INFLATION PRINCIPLE ECONOMIC PROBLEM TODAY. APR 4 PRES PASTRANA PRESIDED OVER MTG GOC ECONOMIC LEADERS. SUBSEQUENTLY ANNOUNCED SERIES OF MEASURES TO COMBAT INFLATION AND CREATION SPECIAL COMMITTEE UNDER MINAG TO MEET WEEKLY TO DEAL WITH PROBLEM. MEASURES INCLUDE REDUCTION OF BEEF EXPORTS AND EMERGENCY

IMPORTATION OF VARIETY OF FOODSTUFFS IN ORDER TO RELIEVE INTERNAL SUPPLY SHORTAGES. MINFIN ANNOUNCED THAT GOC WILL DECELERATE RATE OF PESO DEVALUATION IN ORDER TO MODERATE IMPORT PRICE INCREASES. GOC ALSO TO INTERVENE MORE IN PURCHASE AND DISTRIBUTION OF BASIC FOOD COMMODITIES. MONETARY BOARD SET NEW LIMITS ON CREDIT EXPANSION

AND MIN FIN PLEDGED TIGHT CONTROL FISCAL EXPENDITURES. GOC PROGRAM IS IN RESPONSE TO WORSENING INFLATION IN FIRST QTE 1973 AND GROWING COMPLAINTS CONSUMER GROUPS AND OTHER PUBLIC AND PRIVATE SECTOR SPOKESMEN.

END SUMMARY

2. COST OF LIVING ROSE 14 PERCENT IN 1972 AND INFLATION RATE INCREASED IN FIRST QTR 1973 (REF A). PRELIMINARY DATA INDICATE THAT PRICES INCREASED APPROXIMATELY 3.4 PERCENT IN MAR AND CUMULATIVE UNCLASSIFIED

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INCREASE FIRST 3 MOS 1973 WAS 6.5 PERCENT. BLUE-COLLAR FOOD COSTS WENT UP 5.1 PERCENT IN MAR ALONE. LABOR UNIONS, NEWSPAPERS, AND POLITICAL AND ECONOMIC SPOKESMEN ALL INCREASINGLY ALARMED BY RISING PRICES. LIBERAL LEADERS LLERAS RESTREPO AND LOPEZ MICHELSON BOTH CRITICIZED INFLATION IN RECENT WEEKS AND CALLED FOR STEPS TO CONTROL IT. GOC SPOKESMEN ALSO INCREASINGLY CONCERNED AND IN FACT SIGNIFICANTLY LIBERALIZED IMPORT REGIME IN FEB IN ORDER TO FACILITATE INCREASED SUPPLY OF GOODS TO INTERNAL MARKETS (REF B). ALSO MONETARY POLICY HAS EFFECTIVELY LIMITED MONEY SUPPLY EXPANSION TO 1.7 PERCENT FROM END 1972 TO MAR 24, 1973. SUDDEN PRICE INCREASES IN FEB AND MAR ARE ATTRIBUTED MAINLY TO DRAMATIC MONETARY EXPANSION LATE 1972 (8 PERCENT IN DEC 12 PERCENT FOURTH QTR 24 PERCENT CY 1972), SUPPLY SHORTAGES OWING TO RAPIDLY EXPANDING EXPORTS AND CROP FAILURES ASSOCIATED WITH LACK OF RAIN, AND RISING IMPORT COSTS DUE TO WORLD WIDE INFLATION AND RECENT \$ US AND THEREFORE PESO DEVALUATION VIS A VIS EUROPEAN AND JAPANESE CURRENCIES

3. APR 4 MONETARY BOARD MTG BECAME EXTRAORDINARY SESSION CHAIRED BY PRES PASTRANA AND INCLUDED DIRECTOR GOC MARKETING AGENCY IDEMA, SUPERINTENDENT OF PRICES, AND PRES OF COFFEE FEDERATION AS WELL AS MINISTERS OF FINANCE, AGRICULTURE, AND DEVELOPMENT AND GEN MGR BANK

OF REPUBLIC. GRP CONFIRMED PREVIOUSLY ANNOUNCED POLICIES TO EXPEDITE EMERGENCY IMPORTATION OF CORN AND POSSIBLY POWDERED MILK AND POTATOES. ANNOUNCED QUOTAS REDUCING BEEF EXPORTS (INCREASED 63 PERCENT IN 1972 OVER 1971) AND BEGINNING DISCUSSIONS WITH MEAT PACKERS TO REQUIRE THAT THEY SUPPLY FIXED AMOUNTS OF MEAT TO IDEMA FOR DISTRIBUTION AND MARKETING.

ALSO STATED THAT GOC WILL DECELERATE RATE OF PESO DEVALUATION FROM 9 PERCENT IN 1972 TO PERHAPS 6-7 PERCENT IN 1973.

(PESO- DOLLAR DEPRECIATION CUMULATIVE 2.2 PERCENT JAN- MAR).

OBJECTIVE IS MODERATION OF INCREASING IMPORT PRICES. BELIEVE THAT RECENT \$ US AND THEREFORE PESO DEVALUATION STIMULUS TO MINOR EXPORTS WILL ASSURE CONTINUED EXPORT GROWTH ADEQUATE IN VIEW OF CURRENTLY FAVORABLE FOREIGN RESERVE POSITION. EXTRAORDINARY MTG ALSO REITERATED CENTRAL ROLE OF IDEMA IN IMPLEMENTATION SPECIAL IMPORTS

AND INTERVENTION OVERALL FOOD DISTRIBUTION. MINAG ANNOUNCED IMMINENT AGREEMENT BETWEEN IDEMA AND COFFEE FEDERATION FOR CO-ORDINATION OF LOW COST FOOD DISTRIBUTION THRU LOCAL FEDERATION COOPERATIVES.

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4. MONETARY BOARD EXTENDED LIMITS ON GROWTH OF BANK CREDIT THRU SECOND QTR WITH CERTAIN EXCEPTIONS FOR AGRICULTURE CREDIT, IMPORT FINANCING, AND LOANS FOR SMALL AND MEDIUM SIZED INDUSTRY. ALSO ANNOUNCED MEASURE TO STIMULATE DRAWDOWN OF RICE INVENTORIES; HOWEVER, STOCKS PROBABLY NOT SIGNIFICANT. MOST IMPORTANT MONETARY MEASURE WAS EARLIER RESOL 9 OF FEB 28 RAISING COMMERCIAL LEGAL RESERVE REQUIREMENT FROM 31.5 TO 36.5 PERCENT.

5. FINALLY PRES ESTABLISHED SPECIAL COMMITTEE HEADED BY MINAG AND CONSISTING OF DIRECTORS IDEMA, DANE (STATISTICAL AGENCY), PRICE SUPERINTENDENT, AND ECONOMIC SEC TO PRES. GRP TO MEET WEEKLY TO FOLLOW PRICE TRENDS CLOSELY AND ASSURE UNINTERRUPTED EFFORTS TO INCREASE SUPPLY OF GOODS AND CONTROL PRICE INCREASES. SACCIO

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